NMG Human Capital Management System (HCMS)
Business Case

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EXECUTIVE SUMMARY

(Target 1 - 3 pages; to be completed last)

Situational Assessment and Problem Statement

(1 - 3 paragraphs)

Summarize the key business issues driving the project (short assessment of the current state). Include operational issues, customer issues, and employee (associate) issues. Discuss any industry or market trends that are creating the problems. Discuss competitive threats.

Project Description and Objectives

(1 - 3 paragraphs; figure recommended)

Describe the project and define the project scope from a "process" perspective clearly stating where the process begins, and where the process ends. Summarize what is included, and what is not included in the project, including the organizations and functions involved, and list those not involved. Describe those systems included in the project, and those systems that are not included.

Clearly state the project objectives, and the associated conditions of satisfaction (how will success be measured).

Solution Description

(3 - 5 paragraphs)

Describe the solution at a high level; describe changes to: processes, organizations, systems, people and job roles; describe who is most impacted by the changes and who is least impacted.

Cost and Benefit Analysis

(1 - 2 paragraphs)

List the benefits associated with the solution. Address financial savings, customer satisfaction, associate satisfaction, cycle time improvements, quality improvements, etc. Use the Cost and Benefit Worksheet to help with this section.

List the costs associated with implementing the solution; include one-time investments for implementation and recurring cost to maintain the solution.

Financial Assessment

(1 - 2 paragraphs)

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List the return on investment, net present value and other key financial parameters reflecting the overall expense, savings, and pay back period for the project.

Implementation Timeline
(1 - 2 paragraphs)

Describe the project timeline with key milestones and project checkpoints. The project timeline should reflect key steps in the approach, and include major decision making gates.

Critical Assumptions and Risk Assessment
(1 - 2 paragraphs)

Highlight any risks and critical assumptions that would impact the success or failure of the project, and summarize the SWOT analysis for the project from the detailed business case.

Recommendations
(1 - 2 paragraphs)

State the recommendation of the team (proceed with the project, stop the project, revisit the project definition and scope, or other recommended action.

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SITUATIONAL ASSESSMENT AND PROBLEM STATEMENT

Introduction

Current Human Resource (HR) systems are struggling to meet current business needs and cannot support significant future growth and other business strategies. Increasing amounts of time and effort are needed to do more with an existing system that was not designed to meet current and future organizational needs and requirements.

Current HR systems are increasingly incapable of meeting current business needs. As a result, the business is coming to rely on efforts to manage HR and compensation outside of the systems of record - efforts that may bear near term benefits but are usually unsupportable and tend to place the business at risk over the longer term. At the same time, the legacy systems continue to consume increasing amounts of time, effort and resources of an already overburdened IS and functional staff trying to make a decades-old payroll system able to support NMG's broader and more ambitious HR, benefits, and incentive compensation requirements.

The Neiman Marcus Group is seriously contemplating a significant and aggressive growth strategy. This growth strategy includes launching new lines of business, aggressive pursuit of merger and acquisition opportunities, and the deployment of groundbreaking, incentive sales force compensation models. Existing HR systems are not well suited to support these initiatives and may, in fact, preclude their execution.

This section, "Situational Assessment and Problem Statement," will analyze and discuss the capabilities and limitations of existing systems, using that analysis as an appropriate and relevant foundation for considering the extent to which these existing HR systems may compromise both current operational performance and desired strategic opportunities.

Key Business Issues

Today: We need to change our HR system. Why?

Inflexible

1. **Current System Is Inflexible By Design.** The current core HR system is Genesys. Genesys was installed over 22 years ago as a payroll system. In 1994 some HR functions were added but the system today is still essentially a payroll system trying to fill the role of HR, Payroll and Benefits systems. It has a hardcoded design typical of systems written to support the transactional business needs of twenty years ago. Genesys is inflexible by design, a reflection of the software development mandates of 20 or more years ago in which computational and storage resources were expensive and to be conserved. As a result, Genesys and other applications of its era, tend to utilize limited-length records. Genesys, for example, is limited to using only 6,000 characters for each employee record and it possess significant levels of "hard-coded" business logic. This not only limits Genesys' capacity to address future needs, it also imposes a real and increasing cost when performing less strategic functions such as launching new stores or business units.

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2. **Current System Is Not An HR System.** Genesys, installed over two decades ago, predates the current industry understanding of an HR/Benefits system and is essentially a payroll system. Consequently, it is incapable of supporting many current and desired creative processes such as incentive pay, performance management, training and recruitment.

3. **Current System Is Increasingly Unsupportable.** Genesys is written in COBOL, a computer language that is experiencing a sustained and inevitable decline in technological relevance and market presence. Most application developers entering the marketplace during the last ten years have little or no education or experience with COBOL. The pool of skilled programmers is continuing to decline, the key support personnel are nearing retirement, and new talent is focused on learning state of the art systems and modern programming techniques. Also compounding the problem of being increasingly unsupportable due to being written in COBOL is the fact that at some point in the very near future the version of Genesys used by NMG will no longer be supported by the vendor.

4. **Current System Doesn't Support Reporting and Analysis.** Genesys is a transaction-oriented, payroll system. It was optimized to conserve computing resources, which in this case means viewing employees merely as individuals and viewing payroll as the central event to be processed. It was not designed to incur the computational overhead associated with recognizing organizational structure, much less providing analysts and managers with the ability to summarize and analyze data along characteristics such as time, geography, organization, and job role. But these are precisely the types of analyses that the current business and regulatory environment requires. Executives estimate that up to eighty percent of the time spent on most projects requiring data is spent gathering and compiling HR data from multiple sources - which often means manually recording it, one screen at a time, from Genesys itself. For example, a recent succession planning study required more than 200 hours just to gather data that would have been readily available within a newer system. The current system provides static views of data that were designed to meet the transactional needs of the business decades ago. "Today," one executive lamented, "gathering data is a project not a process."

As a result of being inflexible, difficult to maintain and not designed for organizational data views, today we find the following issues:

1. **Proliferation of Shadow Systems.** Frustrations tied to the limited capacity of Genesys has predictably resulted in the proliferation of shadow systems, systems that are purchased or developed within departments and outside of traditional IS controls, standards and support. The existence of shadow systems in mission critical applications evidences an organization attempting to meet increasingly complex data needs the best it can without needed capital expenditures. Shadow systems can undermine the business processes they were implemented to support. In bypassing the structure and methodologies that IS should bring to bear upon software and systems development, shadow systems can pose a real danger to the organization when they push off into the future the resolution of the critical problems they were created to solve. They are stop-gap systems by nature, and often camouflage, temporarily at least, deeper underlying organization or technology issues. When these systems eventually need to be replaced because of capacity, support, security, or functionality issues, the business problems they were designed to address in many cases will have only become more acute. As a result shadow systems can pose a significant risk to an organization and this risk only multiplies as the numbers of these types of systems increase.

2. **Increased Costs.** Increased costs are inherent with the time intensive efforts required to gather strategic organizational views of data from the current system.

3. **Compliance Risks.** Genesys was not designed to comply with the ever-changing array of governmental reporting requirements and regulations for pensions, 401(k) plans and benefits. HIPAA is just a current example of the many federal laws enacted in the last 22 years that have had an impact on HR systems. Given the increasing difficulty to maintain the Genesys system, NMG could be at risk of non-compliance fines, penalties and adverse publicity.

4. **Strategic Limitations.** Genesys cannot support business needs in a timely manner. As a result opportunities are being missed in key areas including incentive compensation, self-service, productivity, job shifting, and reducing administrative ranks. In the area of Benefits Management and Benefits Administration the current system provides no support. Prior to the creation of The Neiman Marcus Group in 2000, systems for benefits administration and management were provided by Harcourt General. The Harcourt systems that supported HR did not transfer to NMG. As an independent corporation, NMG was left to support Benefits with a system that was designed to be a payroll system and not a benefits system. As a result Benefits has developed a shadow system in order to manage associate benefit programs.

Tomorrow: We will need to change our HR system. Why?

Current system inhibits our business strategies:

Genesys is a back office system, a payroll system. This point is not to belittle the value or importance of a payroll system, but to call attention to the fact that as Genesys predates the current understanding of the value an "HR System" can provide a Fortune 1000 corporation, Genesys effectively limits the ability of HR to function as a strategic partner. HR is limited today in its ability to measure and encourage performance. The ability to align incentives with the organization's strategic objectives does not exist.
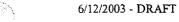
Significant growth cannot be supported by the current system. Genesys does not have the capability to integrate acquisitions and it will not allow for the leveraging of HR resources.

Genesys will not support our strategy of being the employer of choice in the future. We take pride in hiring the best people at every level within the organization. Increasingly, applicants are coming to us with better technical skills than our current systems can support. At some point technology may become a consideration to the person concerned about being part of a forward-looking organization.

While some self-service capabilities have been developed on a customized basis, a full suite of associate self-service and manager self-service tools and capabilities cannot be deployed with the current system. Manager self-service can be especially powerful in allowing manager access to data views that can be used to increase productivity and allow them to focus on their core competencies.

Competencies and data access are important to achieving business strategies for recruitment and staffing. Genesys doesn't support a single database approach necessary to implement changes in recruiting and staffing that will:

* Generate more internal promotions

* Optimize turnover

* Streamline access to associate data across NMG

* Lower vacancy rates

* Reduce recruiting costs

* Get the right person into the right job.

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As a result of staying with Genesys:

NMG will lose future opportunities to implement business strategies. In short, we will not be what we want to be.

Customer Issues

Customers, especially customers who spend less than $10K per year, could have a better shopping experience as a result of a new HCMS. Currently a sales associate has little incentive to go after a new customer. If an associate has the opportunity to work with several customers, and one of them a known customer, the new ones will most likely be ignored. A system that allows for strategic use of incentive compensation has the potential to improve the shopping experience of new customers and significantly that of customers who annually spend less than $10K.

Better focus on customers currently in the $3K - $10K range could have a significant impact on revenue growth. A recent CRM study, $3-$10K Customer Opportunity demonstrated that there is a $114 million opportunity within this customer segment. (Refer to the CRM study, $3-$10K Customer Opportunity included in Appendix C). A critical driver for the implementation of a new HCMS is enabling management to measure and align employee performance with strategic business objectives. A new HCMS system can make the findings and recommendations from the CRM study actionable.

Associate Issues

The impact of a state-of-the-art HR system for sales associates could be enormous. Sales associates react to change in different ways. It is estimated that 40% will seize a new opportunity, while 60% will try to continue with business as usual. Sale associates, especially those with many years of experience, will try to work around changes by getting someone else to take care of changes for them. Traditionally, changes present the organization with a slow educational challenge. Resistant to change is an important risk factor, one that will be addressed through appropriate change management.

Positive impacts of using self-service could reduce paper work and back office activities allowing for better focus on core competencies. Managers could use better information to improve performance and reduce the time needed to make changes. Performance management will have a positive impact allowing for higher value placement.

Improvements that have been implemented recently to better profile and screen new sales associates have proven that new processes and systems can have a measurable impact on employee retention and satisfaction.

Competitors

NMG operates in a unique retail space. While other retailers have tried to compete in the NMG defined space, currently only designer shops and boutiques pose any real threat in terms of competition for customers and product offerings.

When a broader view of competition is taken, competition for Associates is very real, especially in certain market areas. Part of the future HR vision is to become the employer of choice and systems to support recruiting and staffing can be an important part of realizing this vision.

Other environmental and governmental threats to NMG include health care costs, HIPAA and ERISA requirements, and tighter import restrictions and controls.

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NMG strengths include entrepreneurship, creativity, cost control, "top notch people at all levels", teamwork in solving problems, a focus on quality products, building long-term customer relationships, and a sensitivity to the human side of life. The 2002 annual report from its cover to the Mission Statement on the last page clearly states that NMG is not suffering from any kind of identity crisis. "Our business continues to revolve around one core tenet – finding new and better ways to exceed the expectations of affluent consumers." NMG knows what it does best and what makes it so successful.

The NMG weakness cited most often is a resistance to change, "letting our uniqueness perpetuate the status quo". As mentioned in the Associate Issues section, resistant to change is an important risk factor, one that will be addressed through appropriate change management.

Industry and Market Trends

Overall, retail industry volatility is expected to continue. Concerns relating to the economy have hurt consumer sentiment since last September. High-end apparel and home furnishing stores have been most impacted.

NMG has traditionally been one of the last to be affected by economic downturns but among the first to feel a recovery. This observation appears to be supported by current first half numbers now being reported. Value Line (5-16-2003) reports that Neiman Marcus is well on the way to solid increases over the prior year results, strong enough to project the current fiscal year as the second best year in company history, falling only short of the record $2.75 per share earnings for fiscal 2000. Fiscal year-to-date financial results appear to indicate that NMG will have the resources to continue investments in information technology which last year included the addition of new point-of-sale and clienteling capabilities as well as the implementation of new financial and procurement systems.

Strategic growth is certainly a limiting factor with the current Genesys system. Addressing future growth strategies, CEO Burton Tansky was quoted in the annual meeting saying that management continues to be "very interested in expanding its brand holdings," building on gains experienced with controlling interests in Bristow (Laura Mercier cosmetics) and Kate Spade (handbags) in fiscal 1999. From a market perspective, one analyst group (J.M. Lafferty Associates) has recently stated (4-27-03) that growth outlook for NMG is currently weak and below average, substantially below historical growth measures. NMG will have to address the perceived and very real limitations to future growth before a strategic growth business strategy can be realized.

Technology Assessment

The current HR system, Genesys, is an aging mainframe system, characterized by limited data storage capabilities. It is not extensible or scalable and cannot be expanded to address either organizational growth or growth by way of acquisition. An employee-centric approach makes it very difficult to manage the current business and is labor intensive to find and combine data into useful presentations for current and future business needs. As a result of the limitations and inflexibility of the Genesys HR system, many shadow systems have been developed and are supported outside of IS. These systems have limited or no ability to communicate with each other and some communicate with the Genesys system only in a one-way direction.

The current HR systems will not support significant future growth and other business strategies.

PROJECT DESCRIPTION

Project Description and Scope

The Human Capital Management project envisions replacing the current HR systems, which were designed to automate the traditional HR transactional responsibilities of administering payroll and benefits, with a value-creating system that more fully enables HR to participate in the strategic activities of the company. These value-creating opportunities consist of the following components:
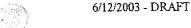
- *Workforce Analytics/Performance Management.* Looking beyond standard HR reporting metrics, Workforce Analytics should enable management to track and evaluate performance across key, multi-disciplinary metrics such as merchandise margin, customer data, operational productivity, marketing campaign activity and training/education.

- *Self-Service/Open Enrollment.* Allowing associates to conduct many of the administrative tasks that currently require HR staff will both improve the associate's level of service, reduce the cost associated with providing and administering HR services, and free HR staff and management to pursue a variety of value-added activities.

- *Competency Management/Recruitment and Development.* By establishing a single repository for employee data, NMG will be better positioned to leverage the talents and competencies of its own employees. These capabilities should enable NMG to reduce the cost associated with acquiring talent, improve the fit of placements, achieve an optimal level of turnover, and allow management to align employee competencies with strategic objectives.

- *Incentive Compensation.* Providing the tools and system support necessary to incent associates in new and creative ways will allow NMG to achieve strategic objects and take action on recommendations resulting from Workforce Analytics. A flexible incentive compensation capability will allow for action in multiple dimensions including customer segments, margin, product lines, campaigns and geography.

Project Objectives

The project objective is to replace an aging payroll and HR system with a state-of-the-art Human Capital Management System (HCMS) to meet current business needs and to allow for the achievement of future business strategies including growth.

Conditions for measuring success include:

- *Implementation of new Incentive Compensation models*
- *Compliance with current legal requirements*
- *Implementation of Performance Management*
- *Elimination of payroll cycle report mailings*
- *Elimination of HR shadow systems in Benefits and other areas*
- *Cost reductions in Recruitment and Staffing*
- *Revenue growth*
- *Customer growth*

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SOLUTION DESCRIPTION

Concept Overview

We will completely replace our existing HR systems with proven state-of-the-art Enterprise Resource Package in order to achieve our current and future strategic business needs.

Solution Detail

NMG considered two packages for potential solutions, Oracle and PeopleSoft. Oracle and PeopleSoft were viewed as offering leading packages not only for their support of HR and Benefits but also within the Retail Industry. Both vendors have significant retail experience.

Last year, a team was formed to select a software vendor. The HCMS team consisted of:

Human Resources

- Marita O'Dea   NMG Senior Vice President, Human Resources
- Karl Mayer   NMG Director, Employee Benefits
- Lee Roever   NM/HR Vice President, Human Resources
- Melinda Copeland   NM/HR Manager, Corporate Human Resources
- Marti Coates   NMG Analyst, Health and Welfare Corporate Benefits

Finance

- Jim Skinner   NMG Senior Vice President, Chief Financial Officer
- Dale Stapleton   NMG Vice President, Controller
- Kerry Camey   NM/Finance Assistant Controller
- Amy Conway   NM/Finance Manager, Payroll

Information Systems

- Phil Maxwell   NMG Senior Vice President, Chief Information Officer
- Michael Tobey   NM/IS Vice President, Applications Development
- Rick Bolka   NM/IS Director, Applications Development
- Cameron Humphries   NM/IS Manager, Applications Development

The team evaluated responses to vendor questions, performed technology assessments, and attended product demonstrations. An evaluation matrix, consisting of over 60 features, was used by the team to evaluate and rate each package in the following major categories:

- General usability and workflow

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- Recruiting and Hiring
- Workforce Management
- Benefits Administration
- Payroll
- Self-Service
- Reporting/Analytics

Based on the written and oral responses to the requests for information, the HCMS product selection team awarded preferred vendor status to Oracle. This decision was difficult as both companies demonstrated strong capabilities across the board, with their features and functionality essentially netting out to a draw. The unanimous selection by the executive team was based on the following differentiating factors:

- **Incentive Compensation.** A critical driver for this project is that it should enable management to measure and align employee performance with strategic business objectives. Based on the oral and written product demonstrations, it is anticipated that Oracle's Incentive Compensation module will provide business managers with a rich and powerful means of making the findings from Workplace Analytics and CRM actionable. Oracle presented an Incentive Compensation module that (a) was field-tested and production hardened; and (b) had been deployed within the retail vertical. PeopleSoft's alternative, conversely, was just coming into production and had not been deployed within the retail vertical.

- **Integration Requirements.** Integrating Oracle HRMS with Oracle Financials is believed to be far less onerous and far less risky than integrating Financials with PeopleSoft. While intuitively this seems self-evident, the Gap Analysis should confirm these benefits, identify opportunities to leverage Oracle functional and technical expertise, and highlight any potential complications between Financials and HRMS.

- **HR Language Consistency.** Remarkably, given PeopleSoft's traditional position as the "thought leader" within the Human Resource Management System (HRMS) segment, Oracle was distinctly more effective in presenting its product's features and functionality using the language and concepts that were familiar, expected and, consequently, most comprehensible to HR executives and practitioners. This engendered greater comfort with Oracle's overall product suite.

- **Payroll Tax Update Frequency.** PeopleSoft's responses essentially validated the perception that its software support was not proactive in ensuring that customers executed payroll against current tax tables.

- **Technology Standards.** While PeopleSoft supports a multitude of standard-based integration methods, its core technology is proprietary, requiring NM/IS to develop new development and system administration competencies. This dilutes the current focus surrounding the adoption of fully compliant Java 2 Enterprise Edition (J2EE) applications, increases the cost and risk, and reduces opportunities to leverage staff and competencies across the enterprise.

- **Pricing.** PeopleSoft's aggressive pricing, even with its added integration and ongoing support costs, possessed a meaningful pricing advantage. It just wasn't enough to overcome the other differentiating factors.

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Both Oracle and PeopleSoft competed aggressively and admirably. These efforts enabled the HCMS product selection team to review two highly qualified proposals and enabled the executive sponsors to make a selection with a high degree of confidence that they were moving forward with an appropriate partner after having given relevant and fair consideration to the alternatives.

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COST AND BENEFIT ANALYSIS

Costs

This section describes the costs associated with implementing the solution

Implementation Costs

List costs associated with training, systems development, lost productivity, change management, process changes, capital equipment, etc.

Recurring Costs

Describe any costs that will occur year over year to maintain the solution.

Benefits

This section describes the benefits associated with the solution. It is important that the benefits link back to the situational assessment and the key drivers / problems that initiated the reengineering project. Use the Business Case Guidelines and Cost / Benefit Worksheet to complete this section.

Operational Savings

This section describes all cost savings (or cost avoidance) associated with the reengineering project. Use graphs and tables where possible. Plot the operational cost impact comparison of the do-nothing scenario against the reengineering solution.

Cycle Time Improvements

Describe any cycle time improvements associated with the reengineered process. State the cycle time before and after the process is fully implemented.
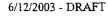
Quality Improvements

Discuss the overall impact the reengineering process will have on overall product or service quality / reliability.

Work Volume Reduction

Describe any reduction in work volume or work load associated with the reengineered process. See the Business Case Guidelines and Cost/Benefit Analysis Worksheet for help with this section.

Customer Benefits

Describe the benefits to the customer and how these benefits address the customer issues presented in the situational assessment. These can include qualitative benefits (those to which you cannot assign dollar savings).

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Associate Benefits

Describe the benefits to the associates and how these benefits address the associate issues presented in the situational assessment. These can include qualitative benefits.

Revenue Increases

Describe any revenue increases associated with the reengineered process and tools.

Market Share Growth and Competitive Position

Describe any market share growth associated with the reengineered process and tools, and how the reengineered solution impacts your competitive situation as described in the situational assessment.

Financial Assessment

Indicate the return on investment, net present value and other key financial parameters reflecting the overall expense, savings, and pay back period for the project. Include extracts from your spreadsheets or other calculations.

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IMPLEMENTATION TIMELINE

Team Structure

Describe the resulting sub-projects that stem from the overall solution. Sub-projects may be separated by process, systems and tools, organizational changes, training needs or other drivers.

Timeline

Describe the high level project timeline with key milestones and project checkpoints. The project timeline should reflect key steps in the approach, and include major decision making gates. Include figures or diagrams to help illustrate the project timeline.

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CRITICAL ASSUMPTIONS AND RISK ASSESSMENT

This section describes the critical assumptions for the project, and assesses any risks with project implementation)

Critical Project Assumptions

List all assumptions made by the project associated with the solution design and cost/benefit analysis. Document your testing of these assumptions with stakeholders and key operational managers.

Risk Assessment

Describe the risks associate with the project, and the potential impacts if the project does not realize the benefits stated.

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CONCLUSIONS AND RECOMMENDATIONS

(3-5 paragraphs)

State the conclusions the reader should draw from the business case, and your recommendations for next steps. Restate key themes from each major section of the case as part of your summary and closing.

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